



Wyoming State Treasurer

Mark Gordon

May 23, 2017

Patricia O'Brien Arp
Deputy State Treasurer

Letter to the Editor

Dear Editor:

Mailing Address

Capitol Building
200 West 24th Street
Cheyenne, WY 82002

Office Location

2020 Carey Avenue – 4th Floor
Unclaimed Property – 3rd Floor
Cheyenne, WY 82002

Administration

307-777-7408
treasurer@wyo.gov

Financial Division

307-777-6309
stodeposits@wyo.gov

Investment Division

307-777-6704
sto-investment-team@wyo.gov

Unclaimed Property Division

307-777-5590
wyomingup@wyo.gov

I began a series about how Wyoming's investments can play a role in tempering some of the revenue shortfalls Wyoming is experiencing with a brief overview of the State's portfolio now standing north of \$20 billion. This second piece explores the history of our permanent funds and their purpose. These "perpetual" funds have become a remarkable blessing for our State and they provide a means to buffer against hard times in a way that few other States can. Understanding what the permanent funds mean to our State is something every Wyoming citizen should understand even if their balances cannot be spent!

But I get ahead of myself. How did Wyoming come to have coffers of permanent funds and why aren't they exactly like savings accounts?

The story begins in Wyoming's territorial days. On February 29, 1889, The United States Senate Committee on Territories reported out Senate Bill 2445 "unanimously and favorably" setting in motion the process for Wyoming to become a State. Then Territorial Governor Frances E. Warren issued a proclamation on June 3, 1889 calling for a constitutional convention. It began, "Whereas, The Territory of Wyoming has the population, material resources, public intelligence and morality necessary to ensure a stable local government therein..." And with that, the stage was set.

1889 was not especially pleasant. Hard winters, forest fires, and droughts filled newspaper reports and troubled Wyoming's most important industries. Then, as now Wyoming worried about population, the future, and her economy. Nevertheless, Wyoming voters, proudly now including women, passed our Constitution on September 30th.

President Harrison signed Wyoming's Act of Admission on July 10, 1890 thereby ratifying our Constitution and thus we became the country's newest State. The new State had new obligations such as a prison, an "asylum," a university, and a school system to sustain. These the Act of Admission and our Constitution anticipated by establishing "permanent" funds to support them.

The idea wasn't new. Every State admitted to the Union since Ohio in 1803, had had lands granted to it to fund its schools and institutions. The proceeds from these lands were placed in trusts that were meant to provide "perpetual" income for these obligations. Each State's Act of Admission defined beneficiaries and how specific trusts would support them. Wyoming's was no different. Our Act of Admission prescribes, for example, that only the interest from -- not the corpus of -- the Common School Permanent Fund can be used to fund the schools.

Our Constitution provided a means to establish other permanent funds such as the Workers Compensation Fund, the Permanent Mineral Trust Fund (PMTF), and the Hathaway Endowment. Wyoming voters have approved amendments over the years to do this. Although there are some differences in language between them, all the State's permanent funds are "inviolable" meaning the corpus of the fund cannot be spent for current budgetary needs -- only the income generated can be used. That means less than 1/3 of the \$20 billion --around \$6 billion -- is available to meet current needs.

The permanent trusts provide a dependable income that has increasingly buoyed Wyoming through some tough times. In fact, typically investment income is one of the top three contributors to Wyoming's General Fund. Therefore, how these funds are invested is critical to our State's future. The proceeds help to fund education, diversify our economy, maintain services, and stave off taxes.

The State Loan and Investment Board (SLIB) plays a role in how the permanent funds are invested. The choices the SLIB makes are key; for example, it can tilt a strategy to boost near-term income or to emphasize growth over time thereby providing future generations with the means to enjoy comparable benefits. This year, the SLIB chose to invest the common school permanent funds to generate more income. It provided a way to help the State address the billion-dollar chasm in education funding she is facing today. In doing so, though, we understood that we were asking future generations to forgo a portion of their piece of the pie. Pulling more income out of these funds today will sacrifice their growth and their ability to generate similar income in the future. Unhappily, and borrowing another cooking metaphor, we cannot have our cake and eat it too.

The SLIB took a different course with the PMTF. There, because of its mandate to benefit future generations, the SLIB established an allocation that seeks to grow the corpus over time. The PMTF stands at \$8 billion dollars -- almost 40% of Wyoming's overall portfolio -- and has a constitutionally mandated revenue stream -- a constitutional 1.5% severance tax on extracted minerals. Consequently, we were able to take a much longer view with it. The SLIB must make choices to try to balance current needs against those of the future.

Letter to the Editor
May 23, 3017
Page 3

In considering the future, though, one of the fiduciary duties the SLIB must always bear in mind regardless of timeframe is our obligation to protect against a particularly destructive pecuniary pest. That termite is inflation which diminishes the value of every dollar every year. What a dollar buys today it will not tomorrow because of it. Thus, an inflation rate of 2% (which is the Federal Reserve's target rate) means that approximately \$160 million dollars will essentially evaporate from the \$8 billion PMTF this year just because. Consequently, if we do nothing to address inflation, next year's PMTF will become \$7.84 billion and so on. Understanding what inflation can do to our savings is one of the most important things Wyoming citizens can do.

Wyoming has worked hard to build "spending policies" that are meant to make sure the value stored in our permanent funds is not diminished. How well those have worked will be the subject of a forthcoming piece. But for now, the purpose and the way we steward these permanent funds weighs profoundly on our State's ability to meet current and future commitments. How we do that is something every Wyomingite should know. Stay tuned.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark Gordon", with a horizontal line extending from the end of the signature.

Mark Gordon
State Treasurer